EXHIBIT C

Financial Report

of

Philip Morris & Co. Ltd.,

Incorporated

March 31, 1942

1002302702

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DIRECTORS

J. E. Archbell
Geo. P. Brauburger
O. H Chalkley
L. G. Hanson
A. E. Lyon
H. E. Riddell
K H. Rockey
W. B. Ryan, Jr.
J. J. Switzer

OFFICERS

O. H. Chalkley.....*President*
A. E. Lyon.....*First Vice-President*
W. C. Foley.....*Vice-President*
T. F. Gannon.....*Vice-President*
W. H. Hatcher.....*Vice-President*
W. E. Liebetrau.....*Vice-President*
J. J. Switzer.....*Vice-President*
L. G. Hanson.....*Secretary-Treasurer*
W. S. Roulhac.....*Assistant Treasurer*
L. C. Metzger.....*Assistant Secretary*

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New York, N. Y.
June 22nd, 1942

To the Stockholders of
PHILIP MORRIS & CO. LTD., INCORPORATED:

The Consolidated Balance Sheet of your Company as of March 31, 1942, and its Consolidated Income Statement for the fiscal year ended on that date, are submitted herewith.

Consolidated net earnings for the year were $7,792,565.43 as compared with consolidated net earnings of $7,360,668.92 for the previous fiscal year, despite increases in many items of cost and an increase of over $3,500,000.00 in Federal Income and Excess Profits taxes. This result has been possible only through a sharp increase in sales volume, which was, roughly, 29%.

Dividends of $5.00 per share were declared on the Common Stock and $4.25 per share on the Cumulative Preferred Stock, 4¼% Series.

During May, 1942 the sale of $6,000,000.00 principal amount of Twenty Year 3% Debentures, due May 1, 1962, and of 49,666 shares of Cumulative Preferred Stock, 4½% Series, was successfully consummated. The proceeds therefrom, amounting to $10,936,311.00 after all underwriting commissions, were deposited to the credit of the Company, and bank loans outstanding amounting to $8,000,000.00 were paid. The balance of the proceeds, less related expenses, will be added to the general working capital of your Company.

PHILIP MORRIS Cigarettes are, of course, your Company's principal product, but it also manufactures MARLBORO Cigarettes, ENGLISH OVALS Cigarettes and REVELATION and BOND STREET Smoking Tobaccos. Your support of these products is a very valuable aid to the continued growth of your Company.

Faithfully yours,
O. H. CHALKLEY,
President

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PHILIP MORRIS [illegible]

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Consolidated

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Assets

Demand deposits in banks and cash on hand		$ 3,157,416.97
Accounts receivable:		
Customers (less allowance for discounts and for doubtful accounts)	$ 5,950,795.70	
Others	304,031.56	6,254,827.26
Inventories of leaf tobacco (including imported leaf in bond subject to duty), cigarettes and smoking tobacco in process, manufactured stock and other materials and supplies, at average cost		53,143,337.72
Total current assets		62,555,581.95
Investments, at average cost (at market quotations, $576,779)		1,474,489.34
Prepaid expenses and deferred charges to operations		511,720.92
Advances to supplier		468,750.00
Other investments, at cost		10,800.00
Fixed assets, at cost:		
Land	115,282.96	
Buildings, machinery and equipment	$ 5,235,586.25	
Less, Allowance for depreciation	1,621,416.45	3,614,169.80	3,729,452.76
Good will, trade-marks and brands, at cost		67,834.56
		$68,818,629.53

NOTES

1. Net current assets and total net assets of the English subsidiary, translated into U. S. dollars and included in this balance sheet, were $147,798.01 and $244,816.89, respectively. Operations of the subsidiary for the year ended March 31, 1942 resulted in a net profit of $8,448.47.

2. The Cumulative Preferred Stock, 4¼% Series is redeemable at $105 per share on or before April 1, 1944, and thereafter at diminishing amounts (not less than $102.50 per share), plus accrued dividends in all cases. Holders of the Cumulative Preferred Stock are entitled to the redemption prices upon voluntary liquidation and to $100 per share plus accrued dividends upon involuntary liquidation.

Under the terms of this issue, the company is required to set aside in a sinking fund, within 80 days after the end of each fiscal year, beginning with the year ended March 31, 1942, certain amounts to be used for redemption purposes or it may use preferred stock in treasury for that purpose. The amount to be so set aside on or prior to June 19, 1942 will be $156,450, but the company reacquired 1,500 shares of such preferred stock in April, 1942 of which it intends to apply 1,490 shares in satisfaction of the aforementioned requirement.

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LTD. INCORPORATED
l in V
d Engl. Subsidiary

Balance Sheet

31, 1942

Liabilities

Notes payable, banks			$ 8,000,000.00
Accounts payable:			
Trade creditors		$ 667,550.78	
Dividends payable:			
On Cumulative Preferred Stock, payable May 1, 1942	$ 158,306.25		
On Common Stock, payable April 15, 1942	2,458,478.00	2,616,784.25	
Others		140,363.22	3,424,698.25
Provision for taxes, additional compensation, storage, etc.			8,007,486.62
Total current liabilities			$19,432,184.87

Capital

Capital stock:			
Cumulative Preferred Stock, par value $100 per share: Authorized 200,000 shares; issued and outstanding 148,991 shares, 4¼% Series (Note 2)	14,899,100.00		
Common Stock, par value $10 per share: Authorized 1,000,000 shares; issued and outstanding 894,026 shares, of which 276,000 shares were issued for $4 per share	7,284,260.00	22,183,360.00	
Surplus:			
Capital (no change during year)	10,570,164.51		
Earned, of which approximately $11,037,000 is not available for payment of dividends on Common Stock under terms of issue of Cumulative Preferred Stock	16,632,920.15	27,203,084.66	49,386,444.66
			$68,818,629.53

3. At March 31, 1942 the company had instructed certain companies, acting as its agents, to purchase leaf tobacco for it in foreign countries, the aggregate cost of which tobacco was reported to be approximately $2,300,000. This amount is not reflected in inventories or liabilities in the balance sheet. The company believes itself adequately protected by marine and war risk insurance against losses to this tobacco while in transit, except that insurance against land war risk is not available.

4. Subsequent to March 31, 1942 the company issued 49,666 shares of Cumulative Preferred Stock, 4½% Series and $6,000,000 principal amount of Twenty Year 3% Debentures, due May 1, 1962. The proceeds of these issues and the related expenses are not reflected in this balance sheet.

On or before November 1, 1942 the company is required to pay to the Trustee for the holders of the debentures a sum sufficient to redeem on May 1, 1943 $100,000 principal amount of debentures (at 102% of the principal amount) or it may substitute debentures for all or part of the payment. No sinking fund payments for the Cumulative Preferred Stock, 4½% Series are required to be made prior to June 19, 1943.

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Consolidated Statement of Income

for the year ended March 31, 1942

Net sales		$112,565,200.82
Cost of sales		87,406,322.29
Gross profit from operations		25,158,878.53
Shipping, selling, general and administrative expenses		10,903,919.50
Net profit from operations		14,254,959.03
Add:		
Dividends received	$ 92,525.33	
Other income	100,844.16	193,369.49
		14,448,328.52
Deduct:		
Interest paid	36,407.36	
Provision for additional compensation to officers and employees, in accordance with authorization of stockholders at meeting of July 20, 1937	408,138.33	444,545.69
Net income, before provision for federal taxes on income		14,003,782.83
Provision for federal taxes on income, including $2,521,500 for excess profits tax		6,211,217.40
Net income for the year		$ 7,792,565.43

NOTE: Provision for depreciation amounted to $335,235.74 in the year ended March 31, 1942.

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Consolidated Statement of Earned Surplus

for the year ended March 31, 1942

Balance, March 31, 1941			$13,943,674.64
Add, Net income for the year ended March 31, 1942			7,792,565.43
			21,736,240.07
Deduct:			
Cash dividends declared:			
On Cumulative Preferred Stock, 4¼% Series	$ 633,231.42		
On Common Stock	4,469,928.50	$5,103,159.92	
16 full shares of Common Stock issued in exchange for 32 Common Stock Dividend Scrip Certificates, Series A, which certificates were issued in connection with stock dividend paid November 15, 1938, at par value		160.00	5,103,319.92
Balance, March 31, 1942			$16,632,920.15

To the Board of Directors of
PHILIP MORRIS & CO. LTD., INCORPORATED:

We have examined the consolidated balance sheet of PHILIP MORRIS & CO. LTD., INCORPORATED and its wholly owned English subsidiary, as of March 31, 1942, and the consolidated statements of income and earned surplus for the fiscal year then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and related statements of income and earned surplus present fairly the consolidated position of the company and its English subsidiary at March 31, 1942, and the consolidated results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LYBRAND, ROSS BROS. & MONTGOMERY,
Certified Public Accountants

New York, June 3, 1942.

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